Report

of the

Examination of

Dairyland Insurance Company

Stevens Point, Wisconsin

As of December 31, 2003

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 6, 2005

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Commissioners:

In accordance with the instructions of the Wisconsin Commissioner of Insurance, a compliance examination has been made of the affairs and financial condition of:

DAIRYLAND INSURANCE COMPANY
Stevens Point, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Dairyland Insurance Company (Dairyland or the company) was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2003, and included a review of such 2004 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

An independent actuarial firm was engaged under a contract with the Office of the Commissioner of Insurance. The actuary reviewed the adequacy of the company's loss and loss adjustment expense reserves. The actuary's results were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuary's conclusion.

II. HISTORY AND PLAN OF OPERATION

Dairyland, a stock property and casualty company operating under ch. 611, Wis. Stat., is the successor to the Dairyland Mutual Insurance Company (Dairyland Mutual). Dairyland Mutual was incorporated on January 8, 1953, and commenced business on February 27, 1953. Dairyland Mutual was dissolved upon approval of the reorganization and issuance of a certificate of authority by the Commissioner of Insurance to Dairyland. Accordingly, all assets and liabilities of the mutual company were transferred to Dairyland. Dairyland was incorporated on June 11, 1965, and commenced business on August 1, 1965.

Shares of the new corporation which were not purchased by the policyholders were purchased by the company's founder and chief executive officer, Stuart H. Struck. In 1966, The Sentry Corporation, a wholly owned holding company subsidiary of Sentry Insurance a Mutual Company (SIAMCO), acquired majority control of Dairyland through purchase of stock from Mr. Struck. The Sentry Corporation steadily increased its ownership interest until it became the sole shareholder in 1978. In 1986, ownership of Dairyland was transferred from the Sentry Corporation to SIAMCO, Dairyland's current parent, as part of an effort to separate insurance operations from noninsurance operations.

In 2003, the company wrote direct premium in the following states:

Florida	$ 71,160,847	15.3%
New Mexico	33,623,442	7.2
Washington	29,125,832	6.3
Connecticut	24,079,045	5.2
Nevada	21,711,255	4.7
West Virginia	21,270,162	4.6
Maine	20,844,732	4.5
Arizona	19,057,414	4.1
Missouri	18,385,414	4.0
Wisconsin	13,408,757	2.9
Ohio	12,221,860	2.6
Illinois	11,697,214	2.5
Rhode Island	9,191,534	2.0
Delaware	8,639,844	1.9
Pennsylvania	8,485,381	1.8
Tennessee	8,354,902	1.8
Minnesota	8,224,962	1.8
Mississippi	7,697,152	1.7
Michigan	7,630,516	1.6
Virginia	7,430,614	1.6
Oregon	7,181,593	1.5
Kansas	7,127,346	1.5
All others	87,525,004	18.9
Total	$464,074,822	100.0%

The company is licensed in 44 states. The company is not licensed in California, Hawaii, Louisiana, New Hampshire, New Jersey, Oklahoma, or the District of Columbia. Dairyland also assumes 100% of the business written by Dairyland County Mutual Insurance Company of Texas, which wrote about $61.3 million of direct premiums in 2003.

Dairyland Insurance Company is distinguished within its holding company system by its specialization in nonstandard private passenger auto and in preferred/standard motorcycle coverages.

The company distributes its products through an independent agency force. The company uses standard contract forms and commission schedules for its agents. Independent agents are eligible to receive contingent commissions depending on premium volume and the three-year loss ratio.

The following table is a summary of the net insurance premiums written by the company in 2003. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$	$ 7,875,706	$	$ 7,875,706
Allied lines		6,577,035		6,577,035
Homeowner's multiple peril		7,581,713		7,581,713
Commercial multiple peril		3,385,635		3,385,635
Ocean marine		16,456		16,456
Inland marine		12,626,103		12,626,103
Earthquake		198,794		198,794
Group accident and health		3,048,746		3,048,746
Other accident and health		9,773		9,773
Worker's compensation		74,706,561		74,706,561
Other liability - occurrence		18,397,936		18,397,936
Other liability - claims made		709,316		709,316
Products liability - occurrence		5,356,830		5,356,830
Private passenger auto liability	346,340,913	131,896,484	386,080,155	92,157,242
Commercial auto liability		45,951,921		45,951,921
Auto physical damage	117,733,912	78,168,954	139,281,554	56,621,312
Aircraft (all perils)		(6,352)		(6,352)
Fidelity		927,326		927,326
Surety		191,901		191,901
Burglary and theft		332,104		332,104
International		1,760		1,760
Reinsurance - non-proportional assumed property		(41,721)		(41,721)
Write-ins for other lines of business: Extended warranty		1,967,253		1,967,253
Total All Lines	$464,074,825	$399,880,234	$525,361,709	$338,593,350

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members elected annually by the shareholder. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The board members receive no compensation specific to their service on the board because all are employees of the parent, Sentry Insurance a Mutual Company.

Dairyland's board of directors meets once per year. Other actions of the board are evidenced by consent resolutions signed by all directors. This practice is permitted by s. 180.0821, Wis. Stat.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Dale R. Schuh Stevens Point, Wisconsin	Chairman of the Board, Chief Executive Officer and President, Sentry Insurance a Mutual Company	2005
Janet L. Fagan Stevens Point, Wisconsin	Vice President and Chief Actuary, Sentry Insurance a Mutual Company	2005
William J. Lohr Stevens Point, Wisconsin	Vice President and Treasurer, Sentry Insurance a Mutual Company	2005
William M. O'Reilly Stevens Point, Wisconsin	Vice President, General Counsel and Corporate Secretary, Sentry Insurance a Mutual Company	2005
James J. Weishan Stevens Point, Wisconsin	Vice President – Investments, Sentry Insurance a Mutual Company	2005

Officers of the Company

The officers serving at the time of this examination are as follows. The officers are employed and compensated by Sentry Insurance a Mutual Company. The officers of Dairyland may also be officers of other companies in the Sentry Group. The salaries listed below are the portion of the officer's total salary that is allocated to Dairyland.

Name	Office	2004 Compensation
Dale Robert Schuh	Chief Executive Officer	$682,331
Richard Thomas La Belle	President	251,687
William James Lohr	Treasurer	106,146
William Michael O'Reilly	Secretary	98,626
Janet Leitner Fagan	Vice President	128,302

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The company did not have any committees at the time of the examination.

IV. AFFILIATED COMPANIES

Dairyland is a member of a holding company system (Sentry Insurance Group) controlled by Sentry Insurance a Mutual Company (SIAMCO), a Wisconsin-domiciled mutual insurer. Including Dairyland, SIAMCO has 22 subsidiaries and affiliates, including 11 insurers and 11 noninsurance entities. SIAMCO is also affiliated with Dairyland County Mutual Insurance Company of Texas through common management. A chart of all of the entities in the holding company system is presented later in this section of the examination report.

A discussion of all the Sentry Insurance Group affiliated companies is included in the examination report for SIAMCO. This report includes only those affiliates with which Dairyland has reinsurance or other important affiliated relationships.

Sentry Insurance a Mutual Company

SIAMCO owns all of the issued and outstanding common stock of Dairyland. SIAMCO is licensed in all 50 states, the District of Columbia, Puerto Rico, and Canada. On a direct basis, the parent company writes a wide range of property and casualty insurance products, predominantly worker’s compensation and automobile coverages. SIAMCO has a 60% participation in the affiliated pooling agreement, whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. The 2003 annual statement reported assets of $4,282,734,663, liabilities of $2,105,670,251, policyholders’ surplus of $2,177,064,411, and net income of $116,879,367. SIAMCO was examined concurrently with Dairyland as of December 31, 2003, and the results of that examination are expressed in a separate report.

Middlesex Insurance Company

Middlesex Insurance Company is a Wisconsin-domiciled stock property and casualty insurer licensed in 40 states and the District of Columbia. The origin of this company dates back to March 29, 1826, when it was chartered by the Massachusetts Legislature as the Middlesex Mutual Fire Insurance Company. Conversion from a mutual to a capital stock company was effected by charter amendment on June 11, 1974, in connection with SIAMCO's acquisition of control, at which time it adopted its present name. SIAMCO has since held 100% ownership and, while presently its interest is direct, control has at times been indirect. On April 28, 1994, the company redomesticated from Massachusetts to Wisconsin.

Of its direct business, the company writes 34% in auto lines and 54% in worker's compensation. The company also assumes 100% of the business of Patriot General Insurance Company, a wholly owned subsidiary. Middlesex has a 10% participation in the affiliated pooling agreement. The 2003 annual statement reported assets of $494,973,228, liabilities of $345,065,105, policyholders' surplus of $149,908,124, and net income of $11,817,202. Middlesex was examined concurrently with Dairyland as of December 31, 2003, and the results of that examination are expressed in a separate report.

Sentry Select Insurance Company

Sentry Select Insurance Company is a property and casualty insurer incorporated on August 1, 1929, as the Fulton Fire Insurance Company under the laws of New York. On May 8, 1969, Deere & Company acquired the company from Hanover Insurance Company of New York and changed its name to John Deere Insurance Company. The company redomiciled to the State of Illinois on December 31, 1982. SIAMCO acquired 100% indirect ownership in connection with the acquisition of Sentry Insurance Holding Company on September 30, 1999, and the name was changed to Sentry Select Insurance Company. On January 1, 2001, the company redomiciled to the state of Wisconsin.

Sentry Select is licensed in all 50 states and the District of Columbia. Of its direct business, the company writes 51% in auto, 10% in inland marine and 14% in worker's compensation lines of business. Sentry Select also assumes 100% of the business from Sentry Casualty Company. Sentry Select has a 10% participation in the affiliated pooling agreement. The 2003 annual statement reported assets of $532,976,838, liabilities of $385,419,139, policyholders' surplus of $147,557,700, and net income of $11,599,064. Sentry Select was examined concurrently with Dairyland as of December 31, 2003, and the results of that examination are expressed in a separate report.

Dairyland County Mutual Insurance Company of Texas

Dairyland County Mutual Insurance Company of Texas (DCM-TX) is a Texas county mutual insurer organized on May 27, 1946. It is licensed only in the state of Texas and specializes exclusively in nonstandard auto and motorcycle insurance. As a mutual company, DCM-TX is owned by its policyholders. DCM-TX is affiliated with SIAMCO through common management and control, as well as certain management service agreements. The company cedes 100% of its direct written premium to Dairyland Insurance Company. As of December 31, 2003, the company reported assets of $14,926,327, liabilities of $4,201,311, policyholders' surplus of $10,725,016, and net income of $158,689.

Sentry Investment Management, Inc.

Sentry Investment Management, Inc., a Delaware corporation organized on June 13, 1969, manages the investment portfolios of SIAMCO and its affiliates, subject to the direction of their respective boards of directors. As of December 31, 2003, the corporation reported $354,027 in assets, $218,537 in liabilities, $135,490 in stockholder's equity, and $5,538 in net income. The company is a wholly owned subsidiary of SIAMCO.

Affiliated Agreements

Dairyland has no employees of its own. All operations are conducted by employees of its parent organization, SIAMCO, in accordance with its business practices and internal controls. In addition, the company's operations are affected by written agreements with Sentry Insurance Group affiliates. The reinsurance contracts are described in the "Reinsurance" section of this report. A brief summary of the other agreements follows.

Service Agreement

Dairyland entered into an intercompany servicing agreement with SIAMCO effective December 31, 2003. This agreement was amended and restated as of March 19, 2004, to include an updated version of Exhibit 1, Intercompany Settlement Policy described below, to add Parker Centennial Assurance Company (Parker Centennial). Services provided by SIAMCO include, but are not limited to, premium accounting and collection, budgeting, disbursement services, administration of loss and loss adjustment expense payments, and management services. The agreement permits Dairyland to audit records pertaining to services performed by SIAMCO under this agreement. Termination, or changes in the terms and conditions of service, may be effected by either party on 30 days' written notice. The form of the agreement is structured so that essential aspects of the allocation methodology itself are referenced in attachments which are periodically updated.

Intercompany Settlement Policy

The Intercompany Settlement Policy has been amended and restated to add or delete companies as necessary. This contract was last amended and restated as of March 19, 2004, to add Parker Centennial. The cash management area settles intercompany balances, in SLAP where possible, based on policies and procedures listed in the agreement for daily, weekly, monthly, semi-annual and annual settlements. Other settlements under the agreement include reinsurance balances, which are to be settled according to the terms contained in the reinsurance agreements, and Sentry Aviation Services and Sentry Services, which are settled as funds are available.

Sentry Complex Income Tax Allocation Agreement

On February 22, 1983, the SIAMCO board of directors adopted a written federal income tax allocation policy for all companies that are party to SIAMCO's consolidated return. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial. The key premise of this policy is that parties to the consolidated return that receive a tax reduction through utilization of some other member's tax loss are to compensate that member for the use of the loss. Federal income tax payable and tax benefits receivable are to be settled among the participants on the consolidated return on the same dates as would be required of each participant on a separate return basis.

Joint Investment Agreement

Effective January 1, 1980, the company entered into a joint investment agreement with Sentry Insurance a Mutual Company and various other affiliates in the Sentry Insurance Group. This agreement established the Sentry Liquid Asset Partnership (SLAP), a joint venture organized pursuant to the Wisconsin Uniform Partnership Act. This agreement has been amended and restated to add or delete companies as needed. The fifth amended and restated agreement was entered into as of September 1, 2004, to delete Sentry Life Insurance Company of New York (SLONY). SIAMCO is designated as the managing partner, though the agreement permits a change by a majority decision of the participants. A participant may withdraw from the joint venture upon the delivery of written notice to the managing partner. The joint venture shall dissolve at such time as only one participant remains in the joint venture.

The business of the joint venture consists of investing and reinvesting funds contributed by the members in short-term obligations of banks, corporations, and the U.S. federal government with a maximum duration of twelve months. It functions in a manner analogous to a short-term bond mutual fund. Investment advisory services are provided by Sentry Investment Management, Inc. This office has directed all Wisconsin-domiciled Sentry companies to report their respective balances in SLAP as a one-line entry on Schedule DA – Part 1 (Short-Term Investments).

Agreement with Sentry Investment Management, Inc.

On April 23, 1991, the company entered into an investment advisory agreement with Sentry Investment Management, Inc. (SIMI). This contract was amended and restated as of December 31, 2003. Under this contract, SIMI is employed to manage and direct the investment and reinvestment of the assets of Dairyland, subject to the control of its board of directors. SIMI agrees to comply with the company's articles, bylaws, investment policies, and all applicable federal or state laws. Provided it acts in good faith, the advisor is held harmless except in the event of a loss resulting from willful misfeasance, bad faith, gross negligence, or reckless disregard. SIMI charges the company a monthly fee computed as follows:

One twelfth (1/12) of an amount equal to the sum of (a) and (b)

(a) Common stocks, excluding those of affiliates:
.379 percent ($3.79 per $1,000) of market value;

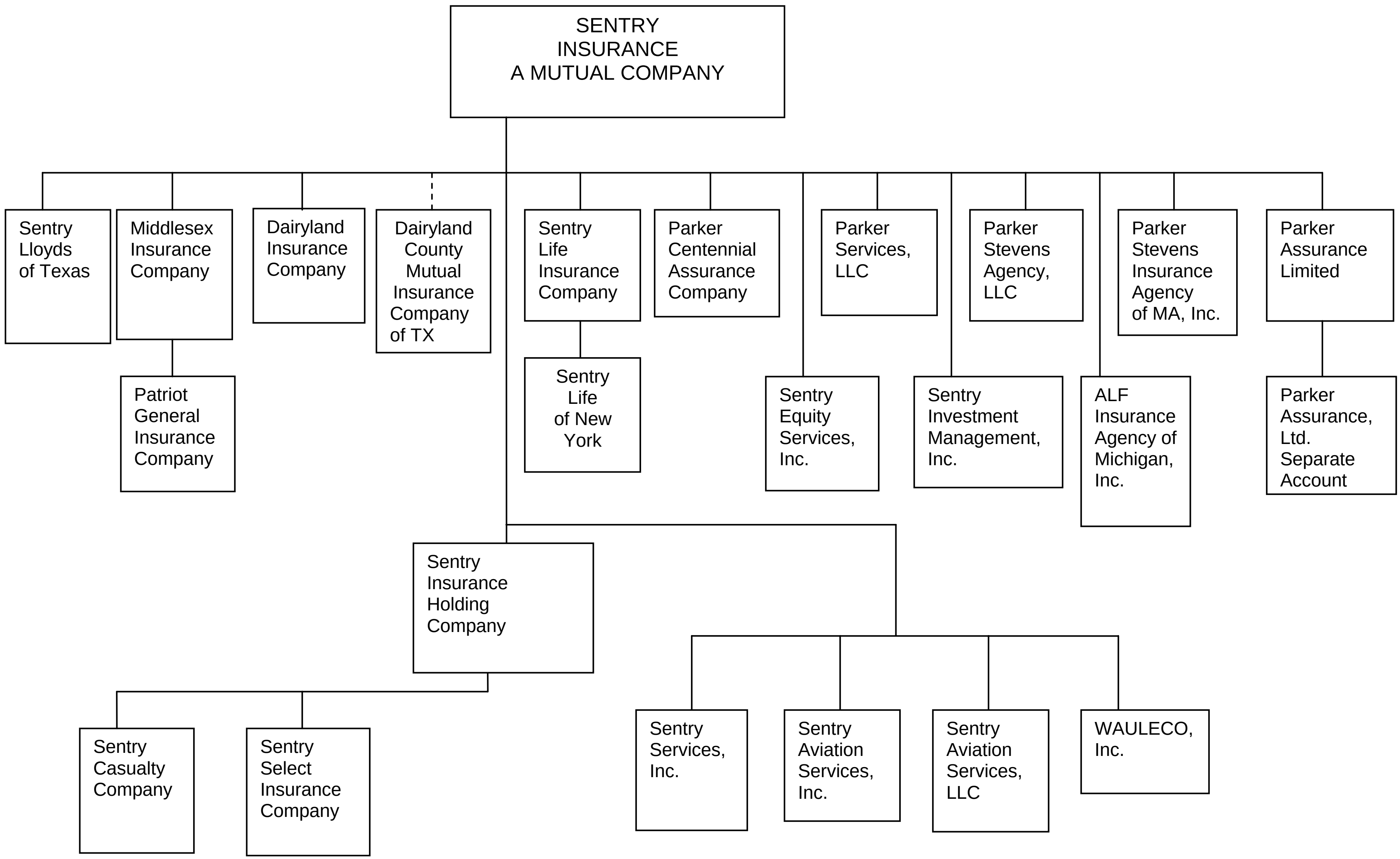
(b) Bonds and preferred stocks, excluding those of affiliates:
.0379 percent ($.379 per $1,000) of market value.

In addition, the actual cost of any expense borne by the advisor on behalf of the company is reimbursed. The contract may be terminated by either of the parties with 60 days' written notice.

General Expense Allocation Agreement

In 1993, the insurance companies of the Sentry Insurance Group entered into a written general expense allocation agreement. The agreement formalized the parties' consent to an accounting allocation process that had been in place since 1982. This agreement has been amended and restated to add or delete companies as needed. The latest amended and restated agreement is effective December 31, 2003, and was amended on March 19, 2004, to add Parker Centennial. Under the agreed procedure, expenses are first grouped and assigned to cost pools, each of which is distinguished by one or more of four characteristics, including activity, location, center, and division. Expenses, once assigned to cost pools, are then allocated to specific insurance products. An expense is not assigned to a specific legal entity until after it is coded to a cost pool and then to a specific product. Allocation at each phase of this process, outlined here in simplified form, is based on specific identification, utilization estimates developed from such criteria as premium or claim volume, time studies, or other rational means of distribution.

Sentry Group
Organizational Chart
As of December 31, 2004



V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows.

Affiliated Property and Casualty Pooling Agreement

The company participates in a pooling arrangement with certain of its property and casualty affiliates. Dairyland Insurance Company, Middlesex Insurance Company, and Sentry Select Insurance Company cede 100% of their direct and assumed premiums, losses, loss adjustment expenses, and underwriting expenses, net of all cessions to nonaffiliated parties, to Sentry Insurance a Mutual Company. The net pooled business is then distributed according to the participations listed below. Specifically excluded from the pooling are income and expenses related to investment operations.

Dairyland, Middlesex, and Sentry Select are direct co-parties to the automatic nonaffiliated ceding reinsurance agreements of SIAMCO along with all of SIAMCO's other property and casualty affiliates, including Dairyland County Mutual Insurance Company of Texas, Patriot General Insurance Company, Sentry Lloyds of Texas, and Sentry Casualty Company. SIAMCO administers all aspects of the pooled business, including placement of reinsurance with nonaffiliates. However, reinsurance with nonaffiliated parties is transacted in the names of SIAMCO, Dairyland, Middlesex, and Sentry Select each for its own direct and assumed business, prior to pooling. After nonaffiliated cessions are made, the net business of each participant is pooled, and all of the net retained business of SIAMCO, Dairyland, Sentry Select, and Middlesex is derived from the pool. Additional terms of the pool are outlined below:

Effective date:	December 31, 2003 (Amended and Restated)	
Participation:	Sentry Insurance a Mutual Company	60%
	Dairyland Insurance Company	20%
	Middlesex Insurance Company	10%
	Sentry Select Insurance Company	10%
Termination:	By mutual agreement of the parties in writing, or by 90 days' advance notice by any one party to the other parties. In either event, such termination shall not be made effective at other than a subsequent calendar year-end.	

Affiliated Assuming Contracts

1.	Type:	100% Quota Share Reinsurance
	Reinsured:	Dairyland County Mutual Insurance Company of Texas
	Scope:	All direct business written by the reinsured. The contract specifically excludes coverage for reinsurance assumed by the reinsured.
	Ceding company retention:	None
	Coverage:	100% of losses, loss adjustment expenses, underwriting expenses, and taxes other than federal income tax associated with the business reinsured under this contract
	Premium:	100% of gross premium written with respect to business reinsured under this contract
	Commissions:	None
	Effective date:	January 9, 1996 (Amended and Restated)
	Termination:	By either party on any December 31 with 12 months' written notice. Termination may be effected immediately with written notice in the event of a breach of any material condition of this agreement, or if a state insurance department or other legal authority orders either party to cease writing business. In the event of insolvency, failure or bankruptcy of the reinsured, or on its entering into an agreement with its creditors, or loss of paid-up capital, or an amalgamation or consolidation with another company, Dairyland may withdraw from this agreement.

Nonaffiliated Ceding Contracts

1.	Type:	Multiple Line Excess of Loss
	Reinsurer:	See Table A at the end of this section
	Scope:	Property and casualty business
	Retention:	$2,500,000, each risk, each occurrence
	Coverage:	The amount of ultimate net loss, including loss adjustment expenses, in excess of the company's retention of $2,500,000 per risk. Reinsurer risk not to exceed $12,500,000 as respects any one risk each loss, nor shall it exceed $25,000,000 all risks involved in any one occurrence.
	Premium:	Annual minimum deposit of $21,920,000; actual premium is 1.65% of subject net premiums earned for property business and 1.65% of subject net earned premium for casualty business.

Commissions:	None
Effective date:	January 1, 2004
Termination:	Company may terminate upon 60-day notice to reinsurer. Reinsurer may terminate upon 90-day notice to company.

2. Type: Multiple Line Clash and Contingency Excess

Reinsurers:	See Table B at the end of this section
Scope:	Property and casualty losses
Effective date:	January 1, 2004
Termination:	Company may terminate upon a 10-day notice to reinsurer.

a. First Layer

Retention:	$15,000,000 each risk, each occurrence
Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $5,000,000 per loss occurrence, and $15,000,000 in aggregate for the contract year
Premium:	Annual minimum deposit premium of $748,000; actual premium is .0563% of subject net earned premium

b. Second Layer

Retention:	$20,000,000 each risk, each occurrence
Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $10,000,000 per loss occurrence, and $20,000,000 in aggregate for the contract year
Premium:	Annual minimum deposit premium of $692,000; or .0521% of subject direct earned premium

c. Third Layer

Retention:	$30,000,000 each risk, each occurrence
Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $20,000,000 per occurrence, and $40,000,000 in aggregate for the contract year
Premium:	Annual minimum deposit premium of $920,000; or .0690% of subject direct earned premium

d. Fourth Layer

Retention:	$50,000,000 each risk, each occurrence
Coverage:	Ultimate net loss in excess of the company's retention, up to a limit of $20,000,000 per occurrence, and $40,000,000 in aggregate for the contract year
Premium:	Annual minimum deposit premium of $742,000; or .0558% of subject direct earned premium

Commission:	None

3. | Type: | Property Catastrophe Excess of Loss |
|---|---|
| Reinsurers: | See Table C at the end of this section |
| Scope: | Property |
| Effective date: | January 1, 2004 |
| Termination: | Company or reinsurer may terminate agreement upon 90-day notice to each other |

a. First Layer

Retention:	$10,000,000 each occurrence plus 5% of the next layer
Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $5,000,000 per loss occurrence, and $10,000,000 aggregate for the contract year
Premium:	Annual deposit of $701,100; actual premium is .4100% of subject net earned premium

b. Second Layer

Retention:	$15,000,000 each occurrence plus 5% of the next layer
Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $15,000,000 per loss occurrence and $30,000,000 aggregate for the contract year
Premium:	Annual deposit of $1,453,500; actual premium is .8500% of subject net earned premium

c. Third Layer

Retention:	$30,000,000 each occurrence plus 5% of the next layer
Coverage:	95% of the company's ultimate net loss, including loss adjustment expenses, in excess of the company's retention, up to a limit of $45,000,000 per loss occurrence, and $90,000,000 aggregate for the contract year
Premium:	Annual deposit of $1,966,500; actual premium is 1.1500% of subject net earned premium

4. | Type: | Worker's Compensation Excess of Loss |
|---|---|
| Scope: | Worker's Compensation and Employer's Liability |
| Effective date: | January 1, 2004 |
| Termination: | December 31, 2004 |

Reinsurers:	American Re-insurance Company – 75% Aspen Insurance UK Limited – 25%
Retention:	$2,500,000 each occurrence
Coverage:	The ultimate net loss in excess of company's retention, up to a limit of $2,500,000 per loss occurrence, with unlimited reinstatements, and $2,500,000 aggregate for terrorism for the contract year
Premium:	Annual minimum deposit of $3,960,000 or 1.268% of subject net earned premium

Table A
Multiple Line Excess of Loss
Participation Schedule

Reinsurer	Participation
American Re-insurance Company	40.0%
AXIS Reinsurance Company	15.0
Converium Reinsurance (North America) Inc.	5.0
Motors Insurance Company	14.0
Hannover Ruckversicherungs-Aktiengesellschaft	14.0
Aspen Insurance UK Limited	12.0
Total	100.0%

Table B
Multiple Line Clash
Participation Schedule

	Participation Layers			
Reinsurer	**1st**	**2nd**	**3rd**	**4th**
American Re-insurance Company	8.0%	0.0%	0.0%	0.0%
AXIS Reinsurance Company	0.0	15.0	15.0	0.0
Endurance Reinsurance Corporation of America	15.0	15.0	18.0	21.0
Folksamerica Reinsurance Company	25.0	20.0	10.0	10.0
Hannover Ruckversicherungs-Aktiengesellschaft	15.0	15.0	15.0	15.0
Liberty Mutual Insurance Company	7.0	4.0	3.5	2.5
New Jersey Re-Insurance Company	0.0	6.0	6.0	6.0
Platinum Underwriters Reinsurance, Inc.	0.0	0.0	17.5	20.5
Swiss Reinsurance America Corporation	0.0	15.0	0.0	0.0
Transatlantic Reinsurance Company	0.0	0.0	5.0	5.0
XL Reinsurance America Inc.	30.0	0.0	0.0	0.0
Aspen Insurance UK Limited	0.0	10.0	10.0	20.0
Total All Participants	100.0%	100.0%	100.0%	100.0%

Table C
Property Catastrophe Excess of Loss
Participation Schedule

Reinsurer	Participation 1st Layer	2nd Layer	3rd Layer
Converium Reinsurance (North America) Inc.	3.00%	4.00%	5.00%
Everest Reinsurance Company	10.00	9.00	9.00
Folksamerica Reinsurance Company	5.00	5.00	5.00
Liberty Mutual Insurance Company	4.00	3.50	2.00
New Jersey Re-Insurance Company	5.00	3.00	1.00
Shelter Mutual Insurance Company	3.50	3.50	3.00
State Automobile Mutual Insurance Company	0.00	1.00	1.00
Transatlantic Reinsurance Company	10.00	8.00	12.00
Endurance Specialty Insurance Ltd.	9.50	7.00	7.00
Hanover Re (Bermuda) Ltd.	5.00	5.00	5.00
Allied World Assurance Company Ltd.	15.00	15.00	15.00
IPCRe Limited	15.00	15.00	15.00
Montpelier Reinsurance Ltd.	6.00	6.00	6.00
PXRE Reinsurance Ltd.	3.00	3.00	3.00
Sirius International Insurance Corporation	1.00	1.00	1.00
Aspen Insurance UK Limited	0.00	0.00	2.00
Odyssey America Reinsurance Corporation	0.00	3.00	0.00
Lloyd’s Syndicate KLN #0510	0.00	1.00	1.00
Lloyd’s Syndicate AFB #0623	0.00	0.46	0.46
Lloyd’s Syndicate AFB #2623	0.00	0.54	0.54
Lloyd’s Syndicate BRT #2987	0.00	1.00	1.00
Total All Participants	95.00%	95.00%	95.00%

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2003, annual statement. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Dairyland Insurance Company
Assets
As of December 31, 2003

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$748,367,461	$	$748,367,461
Short-term investments	45,394,877		45,394,877
Receivable for securities	61,288		61,288
Investment income due and accrued	10,618,879		10,618,879
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	17,950,044	2,865,836	15,084,208
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	95,877,495	203,099	95,674,396
Accrued retrospective premiums	21,818,079	1,173,004	20,645,075
Reinsurance:			
Amounts recoverable from reinsurers	372,295		372,295
Net deferred tax asset	37,799,946	5,159,196	32,640,750
Guaranty funds receivable or on deposit	228,366		228,366
Receivable from parent, subsidiaries, and affiliates	1,603		1,603
Write-ins for other than invested assets:			
Reinsurance A/R affiliate	4,751,555		4,751,555
Total Assets	$983,241,888	$9,401,135	$973,840,753

Dairyland Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2003

Losses		$375,392,210
Loss adjustment expenses		74,572,342
Commissions payable, contingent commissions, and other similar charges		8,853,553
Other expenses (excluding taxes, licenses, and fees)		26,285,181
Taxes, licenses, and fees (excluding federal and foreign income taxes)		2,398,202
Current federal and foreign income taxes		6,045,716
Unearned premiums		157,335,970
Advance premium		9,038,119
Dividends declared and unpaid:		
Policyholders		1,161,821
Amounts withheld or retained by company for account of others		220,756
Remittances and items not allocated		184,648
Payable to parent, subsidiaries, and affiliates		8,842,206
Payable for securities		125,014
Write-ins for liabilities:		
Accounts payable – other		2,870,062
New Jersey buyout expense		775,000
Escheat funds		2,488,523
Premium deficiency liability assumed		400,000
Total Liabilities		676,989,323
Common capital stock	$ 2,950,000	
Gross paid in and contributed surplus	13,528,221	
Unassigned funds (surplus)	280,373,209	
Surplus as Regards Policyholders		296,851,430
Total Liabilities and Surplus		$973,840,753

Dairyland Insurance Company
Summary of Operations
For the Year 2003

Underwriting Income		
Premiums earned		$321,405,584
Deductions:		
Losses incurred	$214,222,782	
Loss expenses incurred	33,241,636	
Other underwriting expenses incurred	81,431,693	
Write-ins for underwriting deductions:		
New Jersey buyout expense	950,000	
Total underwriting deductions		329,846,111
Net underwriting gain or (loss)		(8,440,527)
Investment Income		
Net investment income earned	42,180,435	
Net realized capital gains or (losses)	416,330	
Net investment gain or (loss)		42,596,765
Other Income		
Net gain or (loss) from agents' or premium balances charged off	(1,686,022)	
Finance and service charges not included in premiums	603,986	
Write-ins for miscellaneous income:		
Miscellaneous expenses	(313,447)	
Total other income		(1,395,483)
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		32,760,755
Dividends to policyholders		2,126,803
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		30,633,952
Federal and foreign income taxes incurred		5,139,000
Net Income		$ 25,494,952

Dairyland Insurance Company
Cash Flow
For the Year 2003

Premiums collected net of reinsurance			$333,987,164
Net investment income			39,575,764
Miscellaneous income			(1,395,482)
Total			372,167,446
Benefit and loss related payments		$175,412,586	
Commissions, expenses paid, and aggregate write-ins for deductions		107,075,939	
Dividends paid to policyholders		1,736,025	
Federal and foreign income taxes paid (recovered)		2,592,182	
Total deductions			286,816,732
Net cash from operations			85,350,714
Proceeds from investments sold, matured, or repaid:			
Bonds	$163,252,332		
Miscellaneous proceeds	125,014		
Total investment proceeds		163,377,346	
Cost of investments acquired (long-term only):			
Bonds	238,592,621		
Miscellaneous applications	13,548		
Total investments acquired		238,606,169	
Net cash from investments			(75,228,823)
Cash from financing and miscellaneous sources:			
Other cash provided (applied)			14,900,345
Reconciliation			
Net change in cash and short-term investments			25,022,236
Cash and short-term investments, December 31, 2002			20,372,640
Cash and short-term investments, December 31, 2003			$ 45,394,876

Dairyland Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2003

Assets			$973,840,753
Less liabilities			676,989,323
Adjusted surplus			296,851,430
Annual premium:			
Individual accident and health	$ 9,773		
Factor	15%		
Total		$1,465	
Group accident and health	3,048,746		
Factor	10%		
Total		304,874	
Lines other than accident and health	333,408,028		
Factor	20%		
Total		66,681,605	
Compulsory surplus (subject to a minimum of $2 million)			66,987,944
Compulsory surplus excess (or deficit)			$229,863,486
Adjusted surplus (from above)			$296,851,430
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)			87,754,206
Security surplus excess (or deficit)			$209,097,224

Dairyland Insurance Company
Reconciliation and Analysis of Surplus
For the Four-Year Period Ending December 31, 2003

The following schedule is a reconciliation of total surplus during the period under examination as reported by the company in its filed annual statements:

	2003	2002	2001	2000
Surplus, beginning of year	$267,056,457	$249,781,603	$216,622,674	$203,397,939
Net income	25,494,952	13,650,444	16,966,873	13,163,020
Net unrealized capital gains or (losses)	8,401	288,003	(321,776)	(134,230)
Change in net deferred income tax	(1,822,066)	(5,759,789)	16,819,120	
Change in nonadmitted assets	5,508,077	9,689,329	(17,462,209)	63,164
Change in provision for reinsurance	605,609	(593,133)	91,670	132,781
Cumulative effect of changes in accounting principles			17,065,251	
Surplus, end of year	$296,851,430	$267,056,457	$249,781,603	$216,622,674

Dairyland Insurance Company
Insurance Regulatory Information System
For the Four-Year Period Ending December 31, 2003

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. There were no unusual results.

	Ratio	2003	2002	2001	2000
#1	Gross Premium to Surplus	291%	298%	328%	333%
#2	Net Premium to Surplus	114	116	123	116
#3	Change in Net Writings	9	1	23	-1
#4	Surplus Aid to Surplus	0	0	0	0
#5	Two-Year Overall Operating Ratio	90	91	92	91
#6	Investment Yield	5.8	6.3	6.6	6.5
#7	Change in Surplus	11	9	17	6
#8	Liabilities to Liquid Assets	72	75	77	75
#9	Agents' Balances to Surplus	5	14	15	18
#10	One-Year Reserve Development to Surplus	-6	-11	-16	-24
#11	Two-Year Reserve Development to Surplus	-11	-20	-31	-35
#12	Estimated Current Reserve Deficiency to Surplus	0	0	8	-6

Growth of Dairyland Insurance Company

Year	Admitted Assets	Liabilities	Surplus As Regards Policyholders	Net Income
2003	$973,840,753	$676,989,323	$296,851,430	$25,494,952
2002	871,459,125	604,402,670	267,056,455	13,650,446
2001	811,236,049	561,454,450	249,781,599	16,966,873
2000	738,071,696	521,449,026	216,622,670	13,163,020
1999	737,000,004	533,602,069	203,397,936	28,809,629

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss And LAE Ratio	Expense Ratio	Combined Ratio
2003	$863,955,060	$338,593,351	$321,405,584	77.0%	24.7%	101.7%
2002	796,127,290	310,579,809	282,060,635	80.4	24.8	105.2
2001	819,404,694	307,044,267	271,874,090	81.9	24.6	106.5
2000	721,198,809	250,314,125	244,708,900	80.8	30.4	111.2
1999	777,742,022	252,972,401	238,512,220	75.2	31.9	107.1

The company grew steadily during the period under examination, January 1, 2000, through December 21, 2003, reporting a profit in each year with 2003 being particularly profitable. This is attributable to capital gains, due to good investment performance and improved underwriting results in 2003. The company's loss ratios were relatively stable with the lowest loss ratio in 2003 at 77%. The company's expense ratio was relatively stable during the period under examination, with the exception of 30.4% in 2000.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2003, is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no specific comments or recommendations in the previous examination report.

Summary of Current Examination Results

Affiliated Companies

It was noted that the company did not include any amounts in Schedule Y, Part 2, Column 8. According to NAIC Annual Statement Instructions – Property and Casualty, Schedule Y, Part 2, Column 8, should include all revenues and expenditures under management agreements and service contracts, all income tax amounts resulting from intercompany tax-sharing arrangements, all amounts for contracts for services provided by the insurer or purchased by the insurer from other affiliates, and all compensation under agreements with affiliated brokers and reinsurance intermediaries; the introductory portion of these instructions prescribe materiality limits on what must be reported. The company's interpretation is that these limits apply and therefore the company left this schedule blank. Pursuant to s. Ins 40.04, Wis. Adm. Code, all affiliated, management and service agreements are material and therefore the amounts paid to or received from affiliates should be included in Column 8 of Schedule Y, Part 2, pursuant to s. 601.42 (3), Wis. Stat. It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

Accrued Return Retrospective Premiums

During review of the accrued retrospective premium balance it was noted that the company is netting accrued retrospective premium receivables with accrued return retrospective premiums and reporting the netted balance on annual statement line 12.3. Statement of Statutory Accounting Principles (SSAP) No. 66, paragraph 6 a ii, states when an asset or liability is calculated for each risk, the total of all receivables shall be recorded as an asset and the total of all return premiums shall be recorded as a liability. SSAP No. 66, paragraph 8 a ii, further states that accrued return retrospective premiums shall be recorded as a write-in liability. It is recommended that the accrued return retrospective premiums be recorded in accordance with SSAP No. 66, paragraphs 6 a ii and 8 a ii.

VIII. CONCLUSION

Dairyland Insurance Company is distinguished within its holding company system by its specialization in nonstandard private passenger auto and in preferred/standard motorcycle coverages. Dairyland's operations are conducted under administrative agreements with its parent. Dairyland assumes 100% of the business written by Dairyland County Mutual Insurance Company of Texas and has a 20% participation in the affiliated pooling agreement with SIAMCO, Middlesex and Sentry Select, whereby all property and casualty business written by the Sentry Insurance Group is combined and reapportioned. The experience of Dairyland's net premiums, liabilities, and net underwriting results follow the experience of the affiliated pool.

The company grew steadily during the period under examination, January 1, 2000, through December 21, 2003, reporting a profit in each year with 2003 being particularly profitable. This is attributable to capital gains, due to good investment performance and improved underwriting results in 2003.

The examination verified the financial condition of the company as reported in its annual statement. There were no specific comments or recommendations in the previous examination report. No examination adjustments or reclassifications are being made. Recommendations concerning properly completing Schedule Y, Part 2, of the Annual Statement and properly reporting accrued return retrospective premiums are being made as a result of this examination.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 32 - Affiliated Companies—It is recommended that the company properly complete Column 8 of Schedule Y, Part 2, in all future annual statements, by properly including all revenues and expenditures under management and service agreements pursuant to s. 601.42 (3), Wis. Stat., and s. Ins 40.04, Wis. Adm. Code.

2. Page 32 - Accrued Return Retrospective Premiums—It is recommended that the accrued return retrospective premiums be recorded in accordance with SSAP No. 66, paragraphs 6 a ii and 8 a ii.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Amy Wolff	Insurance Financial Examiner
Angelita Romaker	Insurance Financial Examiner
Richard Anderson	Insurance Financial Examiner
Stephen Elmer	Insurance Financial Examiner
Randy Milquet	EDP Specialists
Tim VandeHey	EDP Specialists

Respectfully submitted,

Kerri L. Miller
Examiner-in-Charge